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**CITY OF WATSONVILLE  
CALIFORNIA**

SINGLE AUDIT REPORT  
June 30, 2008

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**CITY OF WATSONVILLE**

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**AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Mayor and City Council  
City of Watsonville  
Watsonville, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Watsonville (the City) as of and for the fiscal year ended June 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing the audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not all management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the City's ability to imitate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**CITY OF WATSONVILLE****SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Fiscal Year Ended June 30, 2008

	<u>Federal Catalog Number</u>	<u>Identifying Number</u>	<u>Program Expenditures</u>
<b>Housing and Urban Development</b>			
HOME - Program Income	14.239		\$ 70,214
HOME - 2002	14.239	04-HOME-0767	468,424
Community Development Block Grant			
Entitlement Grant	14.218	B-07-MC-06-0052	1,204,753
Passed through County of Santa Cruz Health			
Services Agency:			
Lead-Based Paint Hazard Control	14.900	LHB03-04	3,945
Total Housing and Urban Development			<u>1,747,336</u>
<b>U.S. Department of Justice</b>			
Local Law Enforcement Block Grant	16.592	2006-CK-WX-0662	68,497
Bulletproof Vest Partnership	16.607		3,881
Together in Peace - Juntos Por Laz Paz	16.540	CSA 319-06	454,679
Together in Peace - Juntos Por Laz Paz	16.540	CSA 319-07	104,531
Passed through State of California			
Office of Emergency Services:			
Pajaro Valley Joint Anti-Gang Task Force	16.744	AG07018410	36,089
Homeland Security- Police	16.007	2006-0071	68,554
Homeland Security- Fire	16.007	2006-0071	10,424
Total U.S. Department of Justice			<u>746,655</u>
<b>U.S. Department of Interior</b>			
Watsonville Area Water Recycling Program	15.504	04FC204038	4,839,123
Total U.S. Department of Interior			<u>4,839,123</u>
<b>Federal Aviation Administration</b>			
Airport Improvement Projects	20.106	DTFA08-04-C-31520	160,415
Total Federal Aviation Administration			<u>160,415</u>
<b>U.S. Department of Agriculture</b>			
RBEG Second Street	10.769		21,090
RBEG Westside	10.769		960
RBEG Stoesser Promenade Master Plan	10.769	2003 RBEG	13,835
Total U.S. Department of Agriculture			<u>35,885</u>

See Accompanying Note to the Schedule of Expenditures of Federal Awards

**CITY OF WATSONVILLE**

**NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

June 30, 2008

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**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Watsonville and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the City's basic financial statements.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affect the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Watsonville as of and for the fiscal year ended June 30, 2008, and have issued our report thereon dated December 19, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Watsonville's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

MOSS, LEVY & HARTZHEIM LLP

*Moss, Levy & Hartzheim LLP*

December 19, 2008

**FINDINGS AND RECOMMENDATIONS SECTION**

**CITY OF WATSONVILLE**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
June 30, 2008

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**Section I – Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued

Unqualified

Internal control over financial reporting:

Material weaknesses identified?

\_\_\_\_\_ Yes X No

Significant deficiencies identified not considered  
to be material weaknesses?

\_\_\_\_\_ Yes X None reported

Noncompliance material to financial statements noted?

\_\_\_\_\_ Yes X No

*Federal Awards*

Internal control over major programs:

Material weaknesses identified?

\_\_\_\_\_ Yes X No

Significant deficiencies identified not considered  
to be material weaknesses?

\_\_\_\_\_ Yes X None reported

Type of auditor's report issued on compliance for  
major programs:

Unqualified

Any audit findings disclosed that are required to be  
reported in accordance with Circular A-133,  
Section .510 (a)

\_\_\_\_\_ Yes X No

Identification of major programs:

CFDA Number (s)

Name of Federal Program or Cluster

16.540

Together in Peace - Juntos Por Laz Paz

20.205

Highway Planning and Construction

Dollar threshold used to distinguish between Type A  
and Type B programs:

\$330,991

Auditee qualified as low-risk auditee:

X Yes \_\_\_\_\_ No



**CITY OF WATSONVILLE**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS**

June 30, 2008

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There were no prior year findings and questioned costs.